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United States Department of State  
and the Broadcasting Board of Governors  
Office of Inspector General

# **Report of Audit**

## **Review of Cashiering Operations at Embassy Baghdad**

Report Number AUD/IQO-04-48, September 2004

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**TABLE OF CONTENTS**

	<b>PAGE</b>
SUMMARY .....	1
PURPOSE, SCOPE AND METHODOLOGY .....	3
BACKGROUND .....	5
FINDINGS .....	9
Embassy Baghdad Cashiering Operations .....	9
U.S. Army Cashiering Services .....	9
Policies and Procedures .....	10
Systems Support at the Chancery .....	11
Limiting Use of Cash .....	11
Training .....	12
Amount of Advance .....	13
Travel Advances .....	14
Physical Security .....	14
Consular Collections .....	14
Reconciliation .....	15
Embassy Offices .....	15
RECOMMENDATIONS .....	17
ABBREVIATIONS .....	19
APPENDICES	
A. Organization of Cash Management Offices	
at Embassy Baghdad .....	21
B. RM's Response - Draft Report of Review of Cashiering Operations	
at Embassy Baghdad .....	23

## SUMMARY

The United States Mission in Iraq and Embassy Baghdad began operations on June 28, 2004. At the time of this review, Iraqi banking facilities could not provide needed services, and day-to-day embassy operations required significant amounts of cash.<sup>1</sup> Because of the high volume of cash expected to be disbursed at the embassy and the risks generally associated with cash payments, the Office of Inspector General (OIG) initiated a review of cashiering operations at Embassy Baghdad. Specifically, we evaluated internal controls related to the cashiering operation at Embassy Baghdad.

At the time of our review, the embassy was providing limited service for collections, disbursements, and Foreign Service national (FSN) payroll. Once the embassy begins providing complete cashiering services and until local banking facilities become available, it anticipates that it will be disbursing more than \$1 million in cash each month. This makes it essential for the Department to establish a strong internal control environment over such an inherently risky area as cash management.

OIG did not identify any significant internal control weaknesses in the embassy's initial start-up operation; however, it did identify some issues that the embassy needs to address. First, the U.S. Army was providing many services to the embassy. Although the embassy plans to expand its cashiering operations in October 2004, the U.S. Army will continue to provide some significant services. The embassy needs to develop a formal agreement related to these services.

Second, the embassy was in the process of developing policies and procedures for Embassy Baghdad and the Iraqi Support Unit (ISU) in Amman,<sup>2</sup> but these had not been completed during our review. In addition, we noted some concerns with the availability of system support for future cashiering operations.

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<sup>1</sup> Embassy officials expect the need for large amounts of cash to continue.

<sup>2</sup> The embassy has an offsite support base, the ISU located in Amman, for financial services and other administrative operations. Procedures for coordination between the embassy and the ISU are still being developed, as are procedures for the complex, onsite operations at the embassy.

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In sum, OIG recommends that the embassy establish a memorandum of agreement with the U.S. Army to ensure that it continues to provide essential cashiering services; develop and publish specific policies and procedures for the post's cashiering operations; and ensure that adequate systems support is available. In response to a draft of this report, embassy officials concurred with the three recommendations, although they thought the review was premature as the embassy was still initiating its cashier operation. The Bureau of Resource Management also provided comments and agreed with all three recommendations. Formal comments to this report are included in their entirety as appendix B.

## PURPOSE, SCOPE, AND METHODOLOGY

The overall purpose of this work was to review the embassy's limited cashiering operations. Specifically, OIG evaluated internal controls related to the cashiering operation at Embassy Baghdad, including an assessment of the adequacy of the amount of the funds advanced to the cashier.

The Chief of Mission is responsible for the direction, coordination, and supervision of all government employees, policies, and activities in Iraq, except those under control of an area military commander.<sup>3</sup> For that reason, OIG also obtained background information on general cash management within the embassy.

To accomplish our purposes, OIG interviewed embassy financial officers, the regional security officer (RSO), the consular officer, and the information officer. OIG met with representatives from the C/126 Finance Detachment to understand what services they provide to the embassy. OIG also met with officials from the U.S. Agency for International Development (USAID) to discuss the practicality of contracting with area banks for accommodation exchange. OIG obtained general information from the comptroller and deputy comptroller for the Joint Area Support Group (JASG-C/C8), the financial officer for the Department of Defense's Project and Contracting Office (PCO), representatives from the Defense Contract Audit Agency, the senior advisor to the Iraqi Ministry of Finance, and the U.S. Treasury attaché, who is also the Iraq Reconstruction Management Office's senior consultant to the Central Bank.

OIG obtained and assessed the current and future plans for cash management for the two locations in Baghdad as well as other planned embassy offices.<sup>4</sup> This included plans for the embassy to provide additional cash services, such as accommodation exchange. OIG requested copies of post-specific policies and procedures for cashiering, but this information was not available.

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<sup>3</sup> National Security Presidential Directive, United States Government Operations in Iraq, May 11, 2004.

<sup>4</sup> The two locations in Baghdad are the chancery and the annex, located approximately one mile apart. The embassy has additional offices in Mosul, Basra, Al Hillah, and Kirkuk.

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The embassy finance office inherited a fund that had been used primarily for Department representational events during the transition from Coalition Provisional Authority (CPA) to Iraqi sovereignty. OIG did not review the cash and receipts in this fund because the embassy is in the process of returning the cash to the Department.<sup>5</sup> Also, OIG did not review cashiering services provided by the ISU in Amman.

OIG's Iraq Coordination Staff conducted its field work at Embassy Baghdad from July 19 through August 8, 2004.<sup>6</sup> OIG worked closely with embassy officials throughout the review. OIG discussed the issues presented in this report with appropriate officials at Embassy Baghdad and provided them with a discussion draft on August 15, 2004.

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<sup>5</sup>The Department had provided approximately \$50,000 to be used for representational events during the transition. At the time of the review, embassy officials were reconciling the account and planned to return the remaining cash to the Bureau of Resource Management. Embassy officials agreed to provide a copy of the final report to OIG for review.

<sup>6</sup>OIG's Office of Audits, Financial Management Division, provided support domestically on this review.

## BACKGROUND

### **Transition to Iraqi Sovereignty**

Prior to June 28, 2004, the Coalition Provisional Authority (CPA) was designated by the United Nations as the temporary government until such time as Iraq assumed its sovereignty. As such, the CPA was committed to rebuilding all aspects of Iraqi infrastructure. Under the authority of the United Nations, the CPA established the Development Fund for Iraq (DFI) to assist in this effort, using these funds for contracts and services to assist in the rebuilding of Iraq, as well as to pay the majority of teacher and civil servant salaries.<sup>7</sup> On June 28, 2004, the Interim Iraqi government assumed control of the DFI. Thereafter, the Iraqi Ministry of Finance authorized the JASG comptroller to administer and use DFI funds to make payments on contracts signed and obligated before the transition.<sup>8</sup>



**Cash Transfer - Baghdad**

In June 2004, to ensure there was enough cash for DFI related payments, JASG-C/C8 requested \$160 million from the Central Bank of Iraq and had funds transported from the Central Bank to the vault in the palace (see photo). The JASG-C/C8 office controls the funds in the vault.<sup>9</sup> JASG-C/C8 also stated that the cash currently held in the vault should be sufficient to pay all the outstanding bills that require a cash payment.

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<sup>7</sup> The DFI received funds from many different sources, including the sale of oil, seized assets, donations, repatriated funds, and vested assets.

<sup>8</sup> JASG-C/C8 also managed the physical transfer of cash belonging to the Iraqis from the Federal Reserve to the Central Bank of Iraq. The U.S. Treasury ships funds in cash packs of 16,000 bills. A pack of \$100 bills holds \$1.6 million and weighs 25 pounds. On June 23, 2004, the Central Bank of Iraq received US\$2.4 billion (20 tons of one hundred dollar bills) in order to make payments. According to JASG-C/C8, by December 2004, DFI will continue to fund only a few long-term contracts.

<sup>9</sup> Seized and vested cash assets are held by the U.S. government in Treasury accounts. Noncash assets have been returned to the Interim Iraqi government.

## **Embassy Operations**

Embassy Baghdad, located in a controlled area called the green zone,<sup>10</sup> began operations on June 28, 2004. A National Security Presidential Directive gave the Chief of Mission responsibility for the direction, coordination, and supervision of activities in Iraq and also established the Iraq Reconstruction Management Office within the Department.<sup>11</sup> This office will facilitate the transition in Iraq by overseeing financial management issues and acting as the liaison to the Iraqi ministries.

Before the embassy opened, the Department had a finance officer on temporary duty in Baghdad who provided essential cashing services. The finance officer had a maximum authorization of \$200,000. Since arriving in March 2003, this officer made only three transactions.<sup>12</sup> On July 24, 2004, the accountability was transferred to the FSN class B cashier.

At the time of this audit, a number of different groups at the embassy were disbursing cash,<sup>13</sup> including USAID, JASG-C/C8 under the PCO (formerly the comptroller for the CPA), and the C/126 Finance Detachment. The embassy was providing limited cashing services for collections, disbursements, and FSN payroll. The U.S. Army was still providing accommodation exchanges for embassy employees<sup>14</sup> as well as providing cash to the embassy. The embassy may cash Treasury checks up to \$5 million with the U.S. Army.

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<sup>10</sup> The controlled area, called the green zone or international zone, includes the former regime's palaces, a convention center, the Al-Rashid Hotel, private homes, apartment complexes, and a hospital.

<sup>11</sup> United States Government Operations in Iraq (May 11, 2004).

<sup>12</sup> This consisted of a payment for a release agreement to close the American Interests Section run by the Polish Embassy, a payment for satellite television service for the Broadcasting Board of Governors, and a payment for local cell phones for the RSOs.

<sup>13</sup> Appendix A is an organization chart of groups making fund disbursements at Embassy Baghdad.

<sup>14</sup> The limit is \$200 per employee per week, which can be increased by a signed memo from the supervisor for additional funds when staff goes on rest and recuperation or consultations.



### **Iraqi Relief and Reconstruction Funds**

During the review, OIG obtained information on the overall cash management of the embassy, which included disbursements from the Iraqi Relief and Reconstruction Fund (IRRF). IRRF will ultimately make more than \$18.4 billion in payments.<sup>15</sup> Although these funds fall under the responsibility of the Chief of Mission as discussed in the May 11 presidential directive, the bulk of the funds are administered by non-Department entities.

Although this area did not fall within the scope of the review as originally designed, OIG did note one issue. As discussed above, the banking system in Iraq is not consistent or reliable. Therefore, cash management offices under the Chief of Mission may need to make large cash payments related to IRRF. During the review, the U.S. Treasury attaché recommended that the mission form a task force to assess alternatives and develop a plan of action for making payments to vendors or employees, as well as other mission components, from the IRRF. OIG concluded that a task force would be beneficial as this issue impacts many organizations.

### **Iraqi Banking System**

Currently the Iraqi banking system is not consistent or reliable. The Central Bank of Iraq and other Iraqi banks, the U.S. Treasury Office of Technical Assistance, and the U.S. Federal Reserve Bank are in the process of establishing contracts to help modernize the banking system.<sup>16</sup>

Iraqis almost universally conduct business using cash. Officials estimate that only approximately 4 million of the 22.6 million Iraqis have a bank account, primarily because the banks do not provide adequate security and they are not conveniently located. Currently Iraq does not have any automated teller machines, and Iraqis rarely use checks.

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<sup>15</sup> Pub. L. No. 108-106 provides \$18.6 billion; \$18.4 billion for Iraqi reconstruction and \$200 million for countries outside Iraq. Not all of these funds will be disbursed from the embassy. A significant amount of the transactions will be handled domestically via electronic fund transfer.

<sup>16</sup> Initiatives include installing the standard global system for communications between banks (Society Worldwide Interbank Financial Telecommunication system) and obtaining standardized check-sorting equipment.

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At present, all banks in the country receive cash from the Central Bank of Iraq, which uses ground transport.<sup>17</sup> The trucks or vans are subject to robbery or to insurgents blocking the road. Security at the banks is also inadequate. People have been killed on the steps of the bank after withdrawing funds, sometimes by the bank guards. Banks have often run out of cash because the shipment does not arrive. Iraqis do not have confidence in the banks and request cash when it is available.

Currently, most contracts are with multinational firms for major construction projects. These vendors can be paid electronically. The multinational firms that are performing work in Iraq generally use Jordanian and Kuwaiti banks to provide cash, which is then shipped into Iraq to make payments for supplies and to employees.<sup>18</sup> Some of these firms have accounts with private Iraqi banks, but the banks are small and generally located only in Baghdad. The large Iraqi banks cannot enter into international transactions until all foreign debt has been cleared. The embassy is concerned with the methods used by the major contractors to make payments because slow or partial payments could contribute to social unrest and security problems.

<sup>17</sup> The banks are using a mix of dollars, dinars, and euros. Cash is transferred to the Central Bank of Iraq from the Federal Reserve in New York with the assistance of the U.S. forces.

<sup>18</sup> This adds additional transportation and protection fees to the contract. One estimate stated that the additional charges can often be two percent of the total contract cost.

## FINDINGS

The need to use cash in an unstable environment is a major operational and internal control issue. Currently, security issues drive decisions in the embassy. The lack of trained FSNs makes establishing a good internal control environment that much more difficult.

OIG found that the finance and administrative staff at the embassy, in coordination with the ISU in Amman, were actively working to provide full-service cashiering operations. The financial staff in Baghdad was pursuing the unique financial management challenges and understood the importance of internal controls. OIG identified some issues that the embassy should address, which are discussed below.

### **Embassy Baghdad Cashiering Operations**

The embassy began providing limited cashiering functions in July 2004. Since then, the embassy has been working to hire and train employees, expand services, and develop policies and procedures. Overall, OIG did not identify any significant internal control weaknesses; however, we did identify that the embassy did not have a formal agreement with the U.S. Army for services being provided; post-specific policies and procedures had not been prepared; and adequate systems support was unavailable. Such an inherently risky area as cash management requires the Department to establish a strong internal control environment. The embassy needs to be vigilant as it expands its cashiering operations to ensure implementation of all internal control requirements.

### **U.S. Army Cashiering Services**

At the time of the review, the embassy was providing very limited cashiering services for collections, disbursements, and FSN payroll. The U.S. Army was continuing to provide other essential cashiering services to the embassy, including making accommodation exchanges for employees and cashing large Treasury checks for the embassy. According to embassy officials, the embassy planned to provide accommodation exchanges to Department employees beginning in October 2004. However, even after that date, the embassy will still need to rely on the U.S. Army to provide certain essential services. For instance, the embassy will continue to use

the U.S. Army to cash large Treasury checks in order to obtain cash for embassy cashiering services. A number of factors, including security and the inadequacy of the current banking system, make it impossible for the embassy to provide these services for the foreseeable future.

We found that the embassy did not have any written agreement with the U.S. Army to provide cashiering services. Having an agreement with a service provider is a good business practice to ensure each participant understands the expectations. Without an agreement, the embassy would have little recourse if the U.S. Army changed its policies. The embassy should work with U.S. Army officials to develop a formal agreement on cashiering services.

**Recommendation 1:** We recommend that Embassy Baghdad establish a memorandum of agreement with the U.S. Army to ensure that it continues to provide the embassy with cashiering services as needed.

### **Policies and Procedures**

At the time of the audit, the temporary duty finance staff at Embassy Baghdad had been focusing on establishing policies and procedures for the operation of the ISU in Amman and had not developed post-specific policies and procedures for the cashiering operations. The Department's Foreign Affairs Manual (FAM) and Foreign Affairs Handbook (FAH) provide basic requirements for all posts related to cashiering.<sup>19</sup> Embassy officials told us they had begun to develop policies and procedures related to the hours of operation, use of occasional money holders, accommodation exchange, travel advances, evacuation policies, and FSN payroll. We recognize the many competing priorities at the embassy; however, good policies and procedures are the building blocks of a good internal control environment.

**Recommendation 2:** We recommend that Embassy Baghdad develop and publish post-specific policies and procedures that cover all cashiering operations, including accommodation exchange, cash advances, Foreign Service national payroll, and other cashiering services.

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<sup>19</sup> The authorities used to govern the administration of cashier operations include 4 FAM 300, Cash Management, and 4 FAH 2, Disbursing Officer Handbook.

## **Systems Support at the Chancery**

The systems support required to set up and maintain system operations in Baghdad is significant, as heat and dust result in power failures and surges that require more maintenance. Both the cashiering operation and the consular section are located in the chancery building. Currently, there is no full-time information management specialist dedicated to providing support to the offices in the chancery. OIG determined that it is essential to have a full-time information management specialist provide support to the chancery operations.

**Recommendation 3:** We recommend that Embassy Baghdad establish a system for providing coverage by an information management specialist at the chancery to assist the consular section and the cashiering unit until a full-time specialist is assigned.

## **Limiting Use of Cash**

Currently, Iraq does not have a modern banking system that would support the needs of the embassy. Although officials would prefer to limit the use of cash, security issues and a banking system that is not fully modernized make it difficult to make payments in anything but cash. Therefore, the embassy initially has no choice but to use cash for both vendor payments and FSN payroll.

Once the banking system in Iraq improves, the embassy could begin making electronic payments and could use commercial banks to make accommodation exchanges. This would significantly reduce the embassy's cash dependency. However, even if the banking system is improved, the embassy will still have to overcome certain cultural mores in Iraq. Most Iraqis do not have a bank account. Also, many local vendors want cash payments to avoid being associated with the U.S. government. One FSN told us that some FSNs keep their employment at the embassy a secret, even from their children. Further, it is likely that employees and vendors will request cash payments even when a reliable banking system is in place.

OIG noted that the Embassy Baghdad finance staff has been proactive in seeking solutions to obtain cash through the banking system. The embassy is working with representatives from USAID to evaluate proposals for banks to provide accommodation exchange and electronic payments as well as to obtain and maintain automated teller machines. Although we are not making a formal recommendation, we suggest that the embassy continue to work with USAID to determine the best way to obtain commercial banking services. This should avoid any

duplication of effort within the embassy. By laying this groundwork, the embassy will be in a good position to take advantage of commercial bank services when the security situation improves, thereby reducing the amount of cash needed.

### **Training**

The embassy estimates that to provide full-service cashiering operations, including accommodation exchange, it will need three cashiers and two alternate cashiers. Currently, the embassy has one locally hired FSN class B cashier.<sup>20</sup> This cashier is operating on a temporary designation pending completion of a cashier's training course and passing the required cashiering examination.<sup>21</sup> Embassy Baghdad plans to have two cashiers and two alternate cashiers trained onsite by October 2004.

Finding and hiring qualified FSNs to be cashiers will be challenging. Most embassies have a staff of knowledgeable and experienced FSNs that could be promoted into a vacant cashier position. These FSNs are familiar with their embassy operations, Department requirements, and quite often, the cashiering system before they assume responsibility for their cashier designation.

However, Embassy Baghdad is in a unique position as it does not have a staff of experienced FSNs that can take on this responsibility. As described above, the embassy will need to have large cash balances on hand to make disbursements. Therefore, the embassy must hire competent staff and provide them with proper training to decrease the risk of errors and irregularities.

The need to train FSN financial staff in the Department's financial systems is critical to the mission and to internal controls in all aspects of financial management. The senior finance officer has requested and received confirmation that there will be a series of financial trainers arriving at post in September 2004 to provide hands-on training. We agree with embassy officials that this training will be beneficial.

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<sup>20</sup>At the time of the audit, the cashier had attended one week of training on voucher examiner requirements and two days of cashier training.

<sup>21</sup> 4 FAH-3H-393.1, Required Qualifications to be Designated a Cashier.

In addition, we suggest that all cashiers receive additional training at one of the Financial Service Centers (FSC) or the Foreign Service Institute (FSI). We understand that, initially, this will be difficult, owing to the heavy workload needed to establish the cashiering services. However, we conclude that it would best serve the embassy to ensure that all of its cashiers receive adequate training as soon as possible. In addition to this initial training, follow-up training and Department assistance may be required.

OIG is not making recommendations on this issue; however, we did suggest that the embassy send cashiers to one of the FSCs or to the FSI for additional training. The embassy should coordinate with the Department to ensure that temporary coverage is available.

### **Amount of Advance**

Although the Department had a cashier available to service unexpected needs as of March 23, 2004, the embassy did not begin operations until June 28, 2004. At the time of the audit, the embassy was only providing limited services. Therefore, Embassy Baghdad had not had the cashier's advance in use long enough to establish a weekly activity profile of cash usage as required.<sup>22</sup> The Department made a decision to provide an initial advance of \$200,000, recognizing that the size of the advance would need to be closely monitored as more services, such as accommodation exchange, were added. The embassy estimated that the cashier could disburse more than \$1 million per month, although that amount could decrease if a commercial bank can be found to provide accommodation exchanges.

The finance officers and the FSN cashier were aware of the need to closely monitor the amount of the cash advance, and they planned to review the requirements for the advance monthly.<sup>23</sup> Therefore, OIG is not making any recommendations related to this issue.

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<sup>22</sup> The cashier's advance is a fixed dollar amount that fluctuates based on cash payments. The size of the advance is based on a formula found in 4 FAH-3H-393.4-2. The amount of the advance is based on one week's activity and the time it takes for a replenishment check to arrive.

<sup>23</sup> According to 4 FAH-3 H-393.4-2, the adequacy of the cashier's advance must be reviewed at least every six months by the financial management or management officer.

### **Travel Advances**

The travel policy at the time of OIG's review stated that full-time employees of the Department may take two rest and recuperation breaks and three regional rest breaks in a one-year assignment. The size of the embassy staff and the number of trips one person may take in a year makes it more difficult to establish adequate internal controls for preparing and processing travel advances.

The embassy is informing new arrivals that accommodation exchange is limited and that they should bring additional cash. The embassy plans to allow temporary duty travelers up to \$500 in advance per trip outside of the United States and \$200 if traveling to the United States. The policy serves as an internal control on cash disbursements. Although OIG is not making a recommendation related to this issue, maintaining strong internal controls over travel advances is essential.

### **Physical Security**

OIG reviewed the physical security over the cashiering facility within the chancery.<sup>24</sup> We concluded that the physical security over the current cashiering operations is adequate. The cashier operation is located in the chancery, which requires all visitors to be escorted. The cashier's facilities meet the requirements of the Department.<sup>25</sup> The cashier's cage is an enclosed area with a barred cash window and a lock for control of the area during nonworking hours. The safe used by the cashier has a four-combination dial and key lock and is under the exclusive control of the cashier. OIG is not making any recommendations related to security.

### **Consular Collections**

At the time of the OIG review, consular collections averaged \$2,500 per month.<sup>26</sup> These funds were transported by individuals or commercial mail service to the class B cashier in Embassy Amman for deposit. When the cashier at Embassy Baghdad is fully operational, the embassy plans to have the cashier collect consular fees in accordance with the Department's policies. OIG is not making any recommendations related to this issue.

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<sup>24</sup> OIG recognizes the security concerns created by the current situation, but focused solely on the efforts made by the embassy to provide the standard physical security over the cashier's cage.

<sup>25</sup> Physical security requirements are listed in 4 FAH-3 H-317.2-2.

<sup>26</sup> Consular collections for visa fees are deposited with the class B cashier per 7 FAM and 4 FAH-3H-320.



### **Reconciliation**

The Department requires that all cashiers prepare a daily reconciliation of all funds in their possession.<sup>27</sup> OIG observed the temporary cashier-designate performing a reconciliation and verified that it had been performed correctly and was accurate. The total cash on hand was \$37,000. This amount was reconciled with accounts at FSC Bangkok and balanced with the automated cashiering system. OIG concluded the reconciliation had been performed properly.

### **Embassy Offices**

The embassy plans to establish subcashiers in its remote embassy offices.<sup>28</sup> Initially, the embassy plans to provide a petty cash fund of \$10,000 to each of the administrative officers. These embassy offices are new operations, and it is not yet possible to determine the proper amount of the petty cash funds for each. The embassy plans to review this issue regularly and modify the amount of the petty cash funds as more information becomes available. In OIG's opinion, this arrangement will be adequate for the initial operations of the embassy offices.

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<sup>27</sup> 4 FAH-3H-393.3-3.

<sup>28</sup> Regional embassy offices in Mosul, Basra, Al Hillah, and Kirkuk would have subcashiers to meet cash needs using a petty cash fund.

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## RECOMMENDATIONS

**Recommendation 1:** We recommend that Embassy Baghdad establish a memorandum of agreement with the U.S. Army to ensure that it continues to provide the embassy with cashiering services as needed.

**Recommendation 2:** We recommend that Embassy Baghdad develop and publish post-specific policies and procedures that cover all cashiering operations, including accommodation exchange, cash advances, Foreign Service national payroll, and other cashiering services.

**Recommendation 3:** We recommend that Embassy Baghdad establish a system for providing coverage by an information management specialist at the chancery to assist the consular section and the cashiering unit until a full-time specialist is assigned.

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ABBREVIATIONS

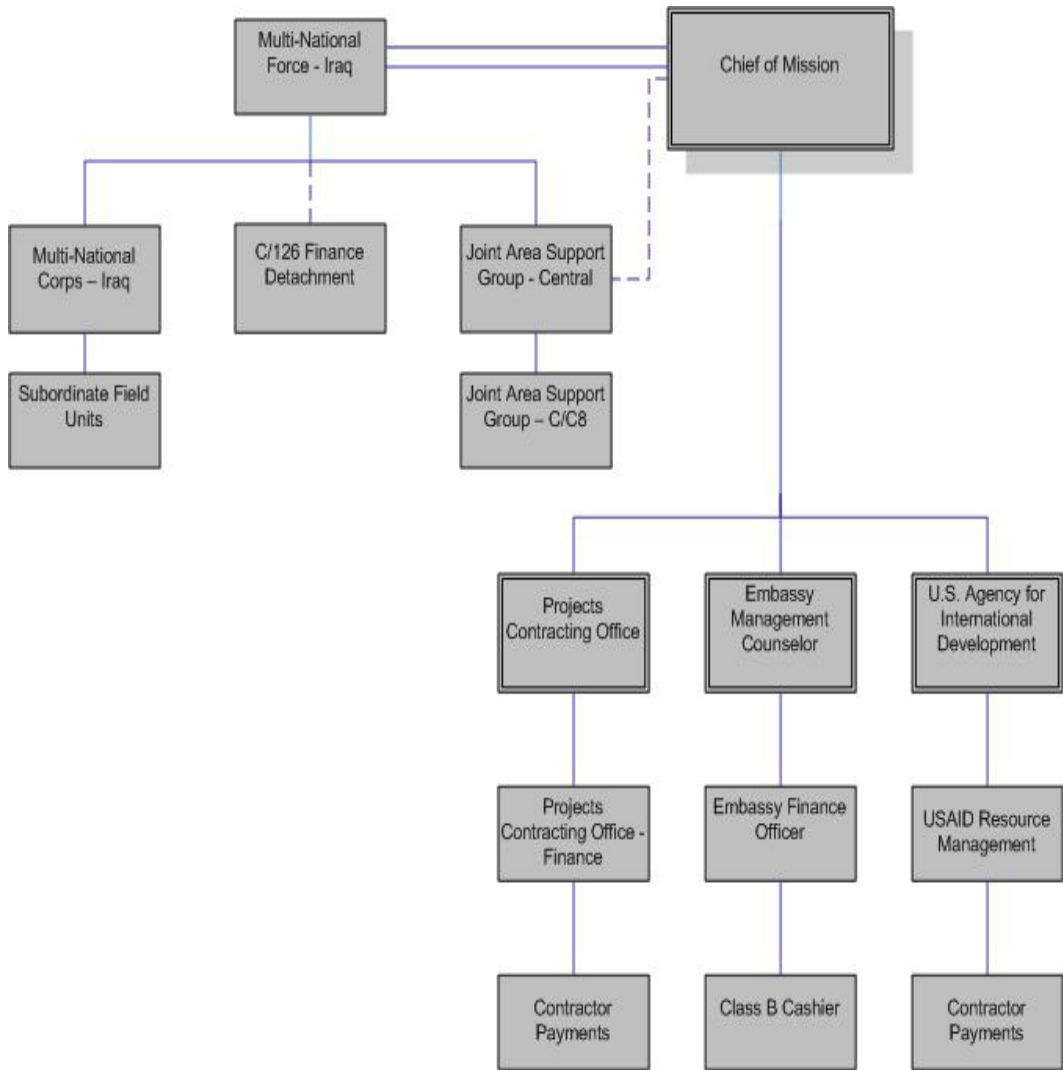
CPA	Coalition Provisional Authority
DFI	Developmental Fund for Iraq
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FSC	Financial Service Center
FSI	Foreign Service Institute
FSN	Foreign Service national
IRRF	Iraqi Relief and Reconstruction Fund
ISU	Iraqi Support Unit
JASG	Joint Area Support Group
OIG	Office of Inspector General
PCO	Project and Contracting Office
RSO	Regional security officer
USAID	U.S. Agency for International Development

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**APPENDIX A**

**Organization of Cash Management Offices at Embassy Baghdad**



Source: Embassy Baghdad Organizational Chart as of July 9, 2004.

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APPENDIX B



United States Department of State  
Global Financial Services  
Charleston Financial Service Center  
P.O. Box 150008  
Charleston, SC 29415-5008  
PH: A/C 843-308-5576

SEP 24 2004

**MEMORANDUM**

TO: OIG – Cameron R. Hume, Deputy Inspector General

THROUGH: RM/EX – Billie Ray Fitzgerald *[Signature]*

FROM: RM/GFS – James L. Millette *[Signature]*

SUBJECT: Draft Report of Review of Cashiering Operations at Embassy Baghdad (AUD/FM-04-XX, September 2004)

Attached are RM's responses to the draft OIG Report (AUD/FM-04-00, dated September 2004) Review of Cashiering Operations at Embassy Baghdad. Please contact Mr. Bill Booth, Director of Global Disbursing Operations, at (843) 746-0578, if you have additional questions.

Attachment:  
As stated

cc:RM/DCFO – Chris Flaggs

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## **Draft Report on the Review of Cashiering Operations at Embassy Baghdad AUD/FM-04-XX, September 2004**

**Recommendation 1:** We recommend that Embassy Baghdad establish a memorandum of agreement with the U.S. Army to ensure that it continues to provide the embassy with cashier services as needed.

**RM/GFS Comment:** We agree with the need for Embassy Baghdad to establish a memorandum of agreement with the U.S. Army summarizing the services provided to ensure that it continues to provide the embassy with cashiering services.

It is not certain how much longer the U.S. Army will be able to provide cashier services. Given the tenuous situation with the banking sector in Iraq, the services of the U.S. Army will be required for the foreseeable future.

**Recommendation 2:** We recommend that Embassy Baghdad develop and publish post-specific policies and procedures to ensure proper controls are implemented for accommodation exchange, cash advances, Foreign Service National payroll and other cashiering services.

**RM/GFS Comment:** We agree that Embassy Baghdad should issue an administrative directive outlining internal policies and procedures for accommodation exchange, cash advances, Foreign Service National payroll and other cashiering services to ensure proper controls are implemented.

**Recommendation 3:** We recommend that Embassy Baghdad establish a system for providing coverage by an information management specialist at the chancery to assist the Consular section and the cashiering unit until a full-time specialist is assigned.

**RM/GFS Comment:** We agree that systems support is necessary for the cashier and Financial Management Office at Embassy Baghdad particularly for the automated cashier system (Win/ACS), time and attendance (Win/T&A) and eventually when/if LANSPFMS is installed at Embassy Baghdad for processing payments. The appropriate action office, however, should be IRM to provide TDY systems support.

**Other Comments:**

Under the section entitled "Purpose, Scope and Methodology," page 2, second paragraph, RM/GFS also questions why USAID is considering contracting out for banking services and accommodation exchange. There is a bank agreement in place with the Credit Bank of Iraq (CBI) and the USDO in Bangkok and the National Bank of Kuwait for obtaining dollars. Once the banking sector is stabilized in country and the CBI is able to open a branch office in the same area as the Embassy (in the so-called "Green Zone") the Embassy will be able to transition from U.S. Army cash support. The Embassy and USAID could take advantage of the CBI services.

Under the section entitled "Training," on page 8, paragraph 4, the OIG refers to a series of financial trainers arriving at post in September 2004 to provide hands-on training. RM/GFS - Charleston has sent a cashier monitor TDY to provide training and on the job support for the new cashier, as well as the new cashier to be hired shortly. Our cashiering expert will remain in Baghdad for approximately 45 days. RM/GFS personnel have also provided training in Voucher Examining, Basic Accounting, and we have scheduled two trainers to provide Travel Regulation and Travel Manager Plus training at the end of September 2004. In addition, RM/GFS provided subject matter experts to provide telephone and in-person customized training for the new FSNs in Baghdad. Please note that with the exception of our cashier monitor who is on the ground in Baghdad, the dangerous conditions in Baghdad dictate that we provide training in Amman, with the new Iraqi FSNs traveling to Jordan.

Under the section on "Embassy Offices," on page 10, RM/GFS questions the plans to establish sub-cashiers in other parts of Iraq that are located outside the Green Zone. Has post management set up these offices and can we guarantee the security of personnel and movement of cash?

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